

***DOMINION-SCOTTISH
INVESTMENTS
LIMITED***



Forty-Second
ANNUAL REPORT
December 31, 1970

DOMINION-SCOTTISH INVESTMENTS LIMITED

44 King Street West, Toronto 105, Ontario

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**DOMINION-SCOTTISH INVESTMENTS
LIMITED**

Toronto 1, Canada

Report for the Six Months
Ended June 30, 1970
(unaudited)

DOMINION-SCOTTISH INVESTMENTS LIMITED

CONDENSED COMPARATIVE STATEMENT OF PROFIT AND LOSS

For the Six months Ended June 30

	1970	1969
Profit before income taxes	\$ 143,601	\$ 182,446
Provision for income taxes	9,500	12,000
Net profit for the period	<u>\$ 134,101</u>	<u>\$ 170,446</u>
Per preference share	\$2.24	\$2.84
Per common share	0.08	0.13

COMPARATIVE STATEMENT OF CHANGES IN NET ASSETS

For the Six months Ended June 30

	1970	1969
Net assets at beginning of period	<u>\$17,182,778</u>	<u>\$19,496,005</u>
Additions:		
Net surplus on investments sold	757,812	1,551,231
Net profit for period	134,101	170,446
	<u>\$ 891,913</u>	<u>\$ 1,721,677</u>
Deductions:		
Decrease in unrealized appreciation of investments	\$ 5,699,734	\$ 3,597,486
Dividends paid —		
On preference shares	75,000	75,000
On common shares	114,116	114,116
	<u>5,888,850</u>	<u>3,786,602</u>
Net decrease for period	(4,996,937)	(2,064,925)
Net assets at end of period	<u>\$12,185,841</u>	<u>\$17,431,080</u>
Net asset value per share —		
Preference	\$203.00	\$290.00
Common	12.67	20.02

W.A. Arbuckle, C.A.,
Chairman

DOMINION-SCOTTISH INVESTMENTS LIMITED

44 King Street West, Toronto 105, Ontario

DIRECTORS AND OFFICERS

W.A. ARBUCKLE, C.A.	<i>Chairman of the Board</i>
J.K. MACDONALD	<i>Deputy Chairman</i>
J.G.S. GAMMELL, M.B.E., C.A.	<i>Director</i>
W.J.R. GOVETT	<i>Director</i>
J.G. HUNGERFORD, Q.C.	<i>Director</i>
P.M. KAVANAGH, PH.D., P.ENG.	<i>Director</i>
J.D. MUNCASTER	<i>Director</i>
J.L. SHORTLY, C.A.	<i>Director</i>
R.W. INGLIS, C.A.	<i>Secretary-Treasurer</i>

MANAGERS

PEMBROKE MANAGEMENT LTD.

HEAD OFFICE	<i>44 King Street West, Toronto, Ontario</i>
SHARES LISTED	<i>Toronto Stock Exchange</i>
BANKERS	<i>Bank of Montreal</i>
AUDITORS	<i>Riddell, Stead & Co.</i>
TRANSFER AGENT AND REGISTRAR	<i>The Royal Trust Company</i>

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors submit herewith the Balance Sheet of this Corporation as at December 31, 1970, and accompanying financial statements duly audited by Messrs. Riddell Stead & Co., Chartered Accountants.

FINANCIAL

Earnings for the year after interest paid and other expenses amounted to \$309,753 as compared with \$306,234 for the previous year. After income taxes, earnings were up \$9,019 at \$283,253, equivalent after preference dividends to \$0.19 per Common Share as compared with \$0.17 for the preceding year.

Retained earnings showed a decline from \$310,203 to \$215,224 whilst accumulated surplus on sale of investments rose by \$135,226 to \$8,073,925.

The Common dividend was maintained at an annual rate of 32 cents. This resulted in the decrease of Retained Earnings mentioned above.

Net Assets at the year-end, reflecting the difficult markets experienced during 1970, stood at \$13,757,859 equal, after deducting the Preference shares at the redemption price of \$52.50, to \$14.87 per Common share. This compares with \$19.68 per Common share as at the previous year-end and a decline in the Toronto Stock Exchange Industrial Index of 6.3%.

A Ten-Year Financial Summary is given on the last page of this Report.

During the year the secured bank loan of \$1,000,000 was repaid and the net interest saving is reflected in the improvement in earnings.

INVESTMENTS

As at December 31, 1970, the portfolio consisted of holdings in 37 different companies, 27 Canadian, 10 U.S. Details are given on Pages 9 to 11 of this Report.

REVIEW AND OUTLOOK

In last year's Report we were reluctant to predict the start of a major recovery for we did not anticipate at that time any marked improvement in the Canadian economy. Events subsequently confirmed these views. With interest rates reaching an all-time high for this century, the economy rapidly slowed down and unemployment

swelled to distressing proportions.

The Federal Government belatedly eased its monetary policy of restraint and by late autumn long-term interest rates gave way and the one-percentage point decline in the yield on long-term Government of Canada bonds was the sharpest decline for the past fifteen years. The Treasury Bill yield dropped 3.4 percentage points. Despite easier monetary conditions, especially in the short-term market, and the greater liquidity of the Chartered Banks in recent months, there has been no immediate resurgence of the Canadian economy. This is partly due to the present low levels of capacity utilization, the higher value of the Canadian dollar depressing exports and encouraging imports and the extremely cautious attitude on the part of the Canadian consumer, as witness the present unusually high rate of savings.

However, there are now signs that the economy is past its lowest point and that the widely heralded Government spending programme is taking effect. Vast expenditures are also in prospect to offset existing shortages in power generation and communications and for welfare and community benefits and anti-pollution measures. Thus we look for a gradual pickup during the second half of 1971 with an increase in the Gross National Product of some seven to eight percent. If this is achieved, there could be a satisfactory increase in corporate profits.

To recapitulate, the North American economy is beginning to resume its long-term growth trend, the investment psychology is positive and while there may be short-term corrections, the primary trend of equities is again on the ascendant.

INVESTMENT POLICY

Our Managers and Investment Advisers, Pembroke Management Limited, are of the opinion that a fully invested position is justified but that it is premature to make heavy commitments in capital goods and related sectors

of the economy.

Retail and other service industries that stand to benefit from the expected growth in consumer spending appear attractive. The demand for certain energy sources is strong and companies holding substantial reserves of oil, gas and coal should also prove to be rewarding long-term investments.

The sharp drop in short-term interest rates will have an adverse effect on the earnings of the banks and some other financial institutions but this should be of only limited duration. Over the longer term the earnings of financial institutions should expand in line with the strong growth in the money supply.

SUTTON VENTURES LTD.

Sutton Ventures Ltd., in which this Corporation holds a 24.5% share interest, is now fully operative and as at its year-end, October 31, 1970, held seven investments at a book cost of \$1,333,288 and with an aggregate value of \$1,399,193. The balance of its funds, some \$1,400,000, was held in the form of Guaranteed Certificates of Deposit. The original investment of \$650,000 was valued by your Directors as of December 31, 1970, at \$716,950.

TAXATION

One awaits with the keenest interest the appearance in the House of Commons of the Tax Reform Bill now slated for April or May of this year. No intimation of its contents has yet been made but it is surely inconceivable that the compelling arguments made by the various Provincial Governments and the recommendations of industry and commerce should have fallen

entirely on deaf ears.

DIRECTORATE

During the year we were pleased to welcome to the Board of Directors Dr. Paul M. Kavanagh, Vice-President of Kerr-Addison Mines Limited.

Under the By-Laws, four Directors are to be elected at the forthcoming Annual General Meeting.

The following gentlemen, having signified their willingness to serve again on the Board, will be nominated for election as directors at the forthcoming Meeting:

<u>Name</u>	<u>Term of Office</u>
W.A. Arbuckle, C.A.	2 years
J.K. Macdonald	2 years
W.J.R. Govett	2 years
J.D. Muncaster	2 years

ANNUAL MEETING

The Annual Meeting of Shareholders has been called for Thursday, April 1, 1971.

Both Preference and Common shareholders are cordially invited to attend. If you cannot attend, please send in your proxy.

ON BEHALF OF THE BOARD

W.A. ARBUCKLE
Chairman

Toronto, Ontario.
March 12, 1971

DOMINION-SCOTTISH INVESTMENTS LIMITED

(Incorporated under the laws of Canada)

BALANCE SHEET

as at December 31,

	<u>1970</u>	<u>1969</u>
ASSETS		
Current Assets		
Cash and short-term deposit receipts	\$ 927,000	\$ 17,855
Due from brokers for securities sold	266,914	—
	<u>\$ 1,193,914</u>	<u>\$ 17,855</u>
Investments		
Investments at quoted market value	13,252,311	18,198,260
(Cost—1970-\$13,763,094; 1969-\$15,243,877)		
	<u>\$14,446,225</u>	<u>\$18,216,115</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank loan (secured)	\$ —	\$ 1,000,000
Accrued expenses	13,566	12,225
Due to brokers for securities purchased	672,037	16,963
Income taxes payable	2,763	4,149
	<u>688,366</u>	<u>1,033,337</u>
Shareholders' Equity:		
Capital Stock —		
Preference —		
Authorized —		
76,730 5% cumulative, redeemable (at \$52.50)		
preference shares, par value \$50 each		
Issued —		
60,000 shares	3,000,000	3,000,000
Common —		
Authorized —		
1,200,000 common shares of no par value		
Issued —		
713,224 shares	2,979,493	2,979,493
Accumulated surplus on sale of investments	8,073,925	7,938,699
Retained earnings	215,224	310,203
Unrealized appreciation (depreciation) of investments	(510,783)	2,954,383
Total shareholders' equity	<u>13,757,859</u>	<u>17,182,778</u>
	<u>\$14,446,225</u>	<u>\$18,216,115</u>

On behalf of the Board:

W.A. ARBUCKLE,
J.K. MACDONALD,

Director
Director.

before M.D.

DOMINION-SCOTTISH INVESTMENTS LIMITED
STATEMENT OF EARNINGS AND RETAINED EARNINGS
For the years ended December 31

	<u>1970</u>	<u>1969</u>
Income		
Dividends from taxable Canadian corporations	\$ 310,324	\$ 369,471
Dividends from other corporations	77,156	128,992
Interest received	12,392	5,080
	<u>399,872</u>	<u>503,543</u>
Interest paid		
Bond interest	—	40,000
Bank interest	22,368	66,119
	<u>22,368</u>	<u>106,119</u>
Other Expenses		
Administrative expenses	27,503	26,880
Investment advisory and management fees	17,988	37,876
Directors' fees	13,723	13,741
Bank charges	1,657	2,810
Trustee, registrar, legal and audit fees	6,880	9,883
	<u>67,751</u>	<u>91,190</u>
Earnings before Income Taxes	309,753	306,234
Provision for Income Taxes	26,500	32,000
Net Earnings (per common share: 1970—\$0.19; 1969—\$0.17)	<u>283,253</u>	<u>274,234</u>
Retained Earnings at Beginning of Year	310,203	414,201
	<u>593,456</u>	<u>688,435</u>
Deduct:		
Dividends paid —		
On preference shares at the rate of \$2.50 per share	150,000	150,000
On common shares at the rate of \$0.32 per share	228,232	228,232
	<u>378,232</u>	<u>378,232</u>
Retained Earnings at End of Year	<u>\$ 215,224</u>	<u>\$ 310,203</u>

*Other STATS
p. 3*

p. 17 for Capital gain

DOMINION-SCOTTISH INVESTMENTS LIMITED

STATEMENTS OF ACCUMULATED SURPLUS ON SALE OF INVESTMENTS, UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS AND CHANGES IN NET ASSETS

For the years ended December 31

ACCUMULATED SURPLUS ON SALE OF INVESTMENTS

	<u>1970</u>	<u>1969</u>
Balance at Beginning of Year	\$ 7,938,699	\$ 5,645,079
Net Gain on Disposal of Investments	<u>135,226</u>	<u>2,293,620</u>
Balance at End of Year	<u><u>\$ 8,073,925</u></u>	<u><u>\$ 7,938,699</u></u>

UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS

Balance at Beginning of Year	\$ 2,954,383	\$ 7,457,232
Net decrease for the Year	<u>(3,465,166)</u>	<u>(4,502,849)</u>
Balance at End of Year	<u><u>\$ (510,783)</u></u>	<u><u>\$ 2,954,383</u></u>

CHANGES IN NET ASSETS

Net Assets at Beginning of Year	<u>\$17,182,778</u>	<u>\$19,496,005</u>
Add		
Net income for year	283,253	274,234
Net gain on disposal of investments (proceeds 1970-\$5,703,479; 1969-\$9,707,069)	<u>135,226</u>	<u>2,293,620</u>
	<u>418,479</u>	<u>2,567,854</u>
Deduct		
Dividends paid on preference and common shares	378,232	378,232
Decrease in unrealized appreciation of investments	<u>3,465,166</u>	<u>4,502,849</u>
	<u>3,843,398</u>	<u>4,881,081</u>
Net Decrease for Year	<u>3,424,919</u>	<u>2,313,227</u>
Net Assets at End of Year	<u><u>\$13,757,859</u></u>	<u><u>\$17,182,778</u></u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1970

1. The company's investments are stated at market value at December 31, 1970 to facilitate the computation of net asset value on a market basis at that date. In the books of the company, however, investments are stated at cost and not adjusted for fluctuations in market value.
2. Amounts included in the financial statements which originated in foreign currencies have been translated at the rate of exchange as at December 31, 1970, and for transactions throughout the year at the rates of exchange in effect at the time of the individual transactions.

AUDITORS' REPORT

To the Shareholders

Dominion-Scottish Investments Limited

We have examined the balance sheet of Dominion-Scottish Investments Limited as at December 31, 1970 and the statements of earnings and retained earnings, accumulated surplus on sale of investments, unrealized appreciation (depreciation) of investments and changes in net assets for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
January 28, 1971.

RIDDELL, STEAD & CO.
Chartered Accountants.

DOMINION-SCOTTISH INVESTMENTS LIMITED

PORTFOLIO AS AT DECEMBER 31, 1970

DEBENTURES (1.74% of net assets)

	Principal Amount	Market Value
Pennzoil Offshore Gas Operators Inc. 1-6% convertible subordinated debentures due October 31, 1979 with Class 'B' common shares attached	\$ 250,000	\$ <u>239,875</u>

PREFERRED SHARES (1.32% of net assets)

	Number of Shares	
Great Britain and Canada Investments (1968) Ltd. 2nd Preference of \$2 p.v.	7,425	\$ 9,281
Overland Express Ltd. Non-Voting Second Pref.	75,000	172,500
		\$ <u>181,781</u>

COMMON AND CONVERTIBLE PREFERRED SHARES (93.26% of net assets)

BANKS (5.42% of net assets)		
Royal Bank of Canada	15,000	\$ 345,000
Toronto-Dominion Bank	20,000	400,000
		\$ <u>745,000</u>

FINANCIAL (13.59% of net assets)

Great Britain and Canada Investments (1968) Ltd.	11,000	\$ 110,000
National Trust Co. Ltd.	30,000	697,500
Sutton Ventures Ltd.	65,000	716,950
USLIFE Corporation	10,000	345,925
		\$ <u>1,870,375</u>

FOOD AND BEVERAGE (9.58% of net assets)

T.G. Bright & Co., Limited	60,000	\$ 922,500
Walker-Gooderham & Worts Ltd., Hiram	10,000	395,000
		\$ <u>1,317,500</u>

ELECTRICAL EQUIPMENT AND ELECTRONICS (7.96% of net assets)

Daniel Woodhead Co.	30,000	\$ 393,900
International Business Machines Corp.	1,000	320,927
Teledyne Inc.	15,450	380,360
		\$ <u>1,095,187</u>

COMMON AND CONVERTIBLE PREFERRED SHARES (Continued)

	Number of Shares	Market Value
GENERAL MANUFACTURING (6.10% of net assets)		
Dominion Glass Co. Ltd.	30,000	\$ 465,000
I.W.C. Industries Ltd.	100,000	185,000
Toromont Industrial Holdings Ltd. Series "A" Conv. Pfd.	20,000	80,000
Toromont Industrial Holdings Ltd.	150,000	102,000
Toromont Industrial Holdings Ltd. "Warrants"	40,000	8,000
		<u>\$ 840,000</u>
MERCHANDISING (5.34% of net assets)		
Peoples Credit Jewellers Limited	8,475	\$ 133,481
Peoples Department Stores Ltd.	40,000	440,000
Tamblyn Ltd., G.	8,000	161,000
		<u>\$ 734,481</u>
METALS AND MINING (14.87% of net assets)		
Banner Mining Corp.	10,000	\$ 195,687
British Columbia Molybdenum Ltd. "Warrants"	10,000	5,000
Crow's Nest Industries Ltd.	14,270	435,235
Dynasty Explorations Ltd.	40,000	224,000
Hollinger Mines Limited	20,000	730,000
International Nickel Co. of Canada Ltd.	10,000	456,250
		<u>\$ 2,046,172</u>
PAPER AND FOREST PRODUCTS (5.42% of net assets)		
Abitibi Paper Co. Ltd.	40,000	\$ 325,000
Revelstoke Building Materials Ltd.	40,000	420,000
		<u>\$ 745,000</u>

COMMON AND CONVERTIBLE PREFERRED SHARES (Continued)

	Number of Shares	Market Value
PETROLEUM AND PIPELINES (16.61% of net assets)		
Atlantic Richfield Co.	10,000	\$ 662,812
Bow Valley Industries Ltd.	7,000	134,750
Imperial Oil Limited	10,000	201,250
Numac Oil & Gas Ltd.	15,000	129,000
Pennzoil United Inc.	6,750	231,795
Pennzoil United Inc. Conv. Pref.	12,000	586,305
Williams Brothers Co.	10,000	339,613
		<u>\$ 2,285,525</u>
PRINTING AND PUBLISHING (6.67% of net assets)		
British American Bank Note Co. Ltd.	15,000	\$ 225,000
Moore Corporation Ltd.	12,000	417,000
Sun Publishing Co. Ltd., Class "A"	10,000	275,000
		<u>\$ 917,000</u>
UTILITIES (1.70% of net assets)		
Bell Canada	5,000	\$ 234,375
MISCELLANEOUS		
Sundry securities		<u>\$ 40</u>
TOTAL COMMON AND CONVERTIBLE PREFERRED SHARES		<u>\$12,830,655</u>

SUMMARY

	Market Value	% of Net Assets
Debentures	\$ 239,875	1.74%
Preferred Shares	181,781	1.32
Common and Convertible Preferred Shares	12,830,655	93.26
Cash and Cash Items (Net)	505,548	3.68
TOTAL NET ASSETS	<u>\$13,757,859</u>	<u>100.00%</u>

DOMINION-SCOTTISH INVESTMENTS LIMITED

Ten-Year Financial Summary

Year Ended Dec. 31	Gross Income	Interest	Other Expenses	Income Taxes	Net Income	Total Net Assets	Funded Debt and Preference Shares *	Available for Common Shares *	Asset Value per Common Share
1961	\$359,103	51,798	36,624	16,000	254,681	10,039,031	3,428,430	6,610,601	12.34
1962	369,870	51,927	37,229	10,000	270,714	10,458,791	4,650,000	5,808,791	10.85
1963	403,080	50,714	36,383	10,700	305,283	11,518,886	4,650,000	6,868,886	12.84
1964	449,532	80,446	35,558	10,700	322,828	13,568,928	5,150,000	8,418,928	15.74
1965	585,728	81,398	46,707	23,000	434,623	17,135,930	5,150,000	11,985,930	16.80
1966	637,736	81,055	50,328	22,000	484,353	15,625,561	5,150,000	10,475,561	14.69
1967	629,557	80,747	50,356	23,000	475,454	17,438,583	5,150,000	12,288,583	17.23
1968	545,571	83,456	64,254	33,000	364,861	21,496,005	5,150,000	16,346,005	22.92
1969	503,543	106,119	91,190	32,000	274,234	17,182,778	3,150,000	14,032,778	19.68
1970	399,872	22,368	67,751	26,500	283,253	13,757,859	3,150,000	10,607,859	14.87

* Preference shares at redemption price of \$52.50.

